

How does Competition Impact Exploration and Exploitation Capabilities Effects on Social Capital for Value Creation?

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Abstract. From the knowledge transfer and capabilities building perspectives, the authors gain a better understanding of the conversion of social capital for value creation and the effects of exploration and exploitation capabilities on these created values. Social capital including valuable social networks elements, which facilitates critical knowledge access and transfer for value creation, is always determined to be crucial by enterprises for running business in China. Enterprises may consider social capital to be important for an effective use of business activities resources and a better management of business risks. The impact of competition is studied as market power may influence the resources and risks of exploration or exploitation. As proven by an empirical study of 184 enterprises in China, the effects of value creation triggered through social capital of enterprises can be mediated by their exploration or exploitation capabilities. It is also empirically proven that environmental competition moderates the strength of the relationship between social capital and exploration capabilities.

Keywords: Social Capital, Value Creation, Exploration, Exploitation, Environmental Competition

1. Introduction

The knowledge-based view has extended resource-based reasoning by suggesting that knowledge is the primary resource for new value creation, heterogeneity, and competitive advantage^[22]. In the knowledge economy, knowledge is a foundation for value creation^[26]. The opportunities of knowledge combination and exchange can be enhanced through the possession of social capital^{*[15]}. Social capital can facilitate enterprises to achieve goals by providing appropriate resources in a complex social context with lots of interactions among organizations. An enterprise's social capital in terms of their social relations and networks can offer privileged access to knowledge and resources for value creation^[1]. Most enterprises in China believe that social capital is crucial for connecting with the critical business resources. The fundamental of social capital emphasizing on the resources embedded in social relations and networks^[19], which contributes to knowledge combination and transfer, is an important support of future effective innovation activities^[1]. Enterprises possess valuable social capital can formulate effective organization activities systems^[28], enhance core competence^[8], and achieve better business performance^[9]. However, the capabilities to identify and transfer valuable knowledge should exist to secure the values of knowledge combination and exchange^[15]. Enterprises need to understand what are the key resources and drivers of performance and the corresponding values in their organizations^[21]. Capabilities address valuable knowledge exploration and exploitation, which influence the ultimate value creation, are required to be further investigated.

While social relations and networks may transfer knowledge for accessing these key resources and drivers, capabilities to explore and exploit may determine the ability to identify and utilize the knowledge effectively. Exploration and exploitation capabilities contributed by transferring knowledge through social relations and networks are difficult to imitate, and subsequently can lead to enhanced performance^[7]. Dense social relations may become an effective coordination mechanism which yields positive effect on both exploratory and exploitative innovation^[14]. Innovation may help enterprises to identify uniqueness and create differentiations which lead to a better market performance. Exploration and exploitation capabilities supporting enterprises innovation activities may also drive value creation as a result. However,

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notwithstanding the substantial insights we now have into the values of social capital for enterprises, we still lack a coherent understanding of the exploration and exploitation capabilities' effects on the value creation.

Enterprises may build network connections and relations actively for interacting with other organizations in order to sustain development during market competition situations ^[20]. Enterprises activities may be influenced by environmental competition which refers to the intensity of the competition in the external environments ^[14]. As competition intensifies and the pace of change accelerates, enterprises may continue renew themselves by exploiting existing competencies and exploring new ones ^[25]. However, environmental competition may reduce available resources for exploratory innovations as exploration activities will be considered to be more risky and costly during the time ^[14]. Therefore, the environmental competition may influence both the processes and results of organization business activities.

For sustainable growth and development: enterprises should be ready to build capabilities for adopting dynamic changes driven by market competition ^[31]. However, enterprises fighting for resources during fierce competition situations may have more complex strategic choices. While there is an interest in understanding how exploration and exploitation capabilities may influence the value creation effected by social capital, the impact of fierce market competition which lead to the uncertainties of these influences also arouse a lot of interest. In this paper, we extend the understanding of how enterprises in China can leverage social capital to acquire valuable knowledge which facilitates exploration and exploitation capabilities development. We argue that enterprises in China can ride on social capital for achieving better exploration and exploitation capabilities, however, the effect of social capital investment for exploration capabilities improvement may be regulated by the market competition intensity. This article contributes in two important ways. First, we identify the central role of social capital in enabling exploration and exploitation capabilities for value creation. Second, we advance the understanding of how environmental competition can moderate the effects of these capabilities.

2. Social Capital for Value Creation

Values can be created through the drive of organization knowledge resource ^[26]. An enterprise as an organization is the unit of analyses, innovation and invention activities impact the value creation process ^[5]. Values of knowledge can be actualized when it is applied in organizational activities ^[11]. Knowledge is an important factor for organizations to create values from different perspectives ^[2]. Scholars have empirically identified factors that lead to the creation of values for an enterprise from the organization knowledge perspective. Much of this literature focuses on knowledge factors internal to the enterprise. However, in our view, the knowledge literature on creating new values currently neglects the importance of the valuable knowledge transfer driven by social capital factors. Social capital has a positive impact on knowledge creation as building social capital among organization members facilitate them to manage and apply organizational knowledge more effectively ^[6]. Social capital of an enterprise facilitates better social connections of individuals within the organization for providing greater information and knowledge that produces new organizational knowledge ^[15]. Accordingly, social capital facilitates value creation ultimately ^[29]. Shuller, Baron and Field ^[27] stress social capital as social networks, the reciprocities that rise from them, and the values of these for achieving mutual goals. Three features of social capital including networks, norms and trust, dominate conceptual discussion of social capital. These three dimensions of social capital had significant effects, directly or indirectly, on knowledge exchange and combination. Enterprises with valuable social capital may have better channels for acquiring critical knowledge effectively and timely. Knowledge creation is social in nature, and social exchange is an essential part of it for wealth generation ^[16]. Accumulation of external knowledge and skills can be done through imitation, learning and acquisition of social network resources. Synergies can be generated by combining social network resources and internal resources ^[13]. Valuable and unique social network resources may help to generate sustained competitive advantages of an enterprise as from the resource-based view ^[10]. An enterprise can use social network resources to extend and enrich its value-creation opportunities directly ^[30]. Knowledge resource acquired through social networks embedded in organizational capabilities may secure effective management decisions for ultimate value creation, thus we hypothesize:

H1. The social capital of an enterprise in China is positively related to the values created.

3. Effects of Exploration and Exploitation Capabilities Influenced by Environmental Competition

Firm capabilities are tangible or intangible processes developed over time through specific and complex interactions among the firm's resources [30]. Knowledge embedded capabilities with uniqueness and limited mobility may create organizational rent from the resource-based view [10]. Learning capabilities can be defined in terms of the processes of knowledge creation, retention and application, act as the source of dynamic capabilities [17]. The evolution of knowledge through exploration and exploitation depends on the dynamic capabilities. 'Exploration' is the engagement of pursuing new knowledge which involves search and variation, whereas 'Exploitation' is the engagement of using and developing things already known which involves refinement and execution [12][3]. 'Exploration' includes things captured by terms such as search, variation, risk taking, experimentation, play, flexibility, discovery, innovation; whereas 'Exploitation' includes such things as refinement, choice, production, efficiency, selection, implementation, execution [4]. The effectiveness of exploration and exploitation activities for generating tangible outcomes depends on the corresponding capabilities. Exploration and exploitation capabilities can be improved through effective knowledge flows activities. Knowledge flows are necessary for facilitating organization learning for capabilities improvements [24]. Both exploration capabilities and exploitation capabilities improved through the knowledge transferring processes are important for value creation [24], thus we hypothesize:

H2a: The level of exploration capabilities of an enterprise mediates the positive relationship between the social capital and the created values;

H2b: The level of exploitation capabilities of an enterprise mediates the positive relationship between the social capital and the created values.

Knowledge is easily transferred through trusting and non-competitive relationships [23]. Social capital facilitates trust and relationships will be beneficial to the knowledge transfer process. However, environmental competition which leads to less trust and intense competition may be harmful for the knowledge transfer process. Environmental competition refers to the extent of competition intensity which can be reflected in the number of competitors and number of areas in competition [14]. Predictability and certainty diminish as competition intensity increase [23]. Exploration implies a longer term return and a more uncertain result. The risk of exploration increases as uncertain market situations found during intense market competition. An enterprise may suffer a bigger impact when pursuing knowledge exploration compared to knowledge exploitation during fierce competition [18]. We therefore propose that environmental competition moderates the significant effect of social capital more on exploration capabilities than exploitation capabilities. Thus, we hypothesize:

H3a: Environmental competition intensity can moderate the positive relationship between the social capital and the level of exploration capabilities of an enterprise;

H3b: Environmental competition intensity cannot moderate the positive relationship between the social capital and the level of exploitation capabilities of an enterprise.

4. Empirical Study

Based on the literature review and our empirical study of data collected from 184 enterprises of China, a model of social capital for value creation ("SC/VC Model") is proposed. The SC/VC model proposed under the study highlights the importance of exploration and exploitation capabilities factors for value creation from the social capital effects. An overview of this model is demonstrated under figure 1.

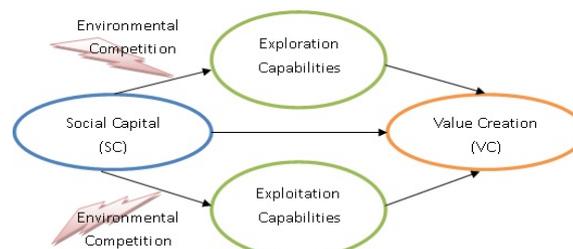


Fig. 1: SC/VC Model

The constructs used in this study for testing the hypotheses were measured using five-point Likert scales. Reliability and validity of the constructs were assessed. Statistical regression tests were used for testing the hypotheses upon controlling the human resources and organization assets factors, the results support the proposed hypotheses under this study. The statistical analysis results identify: a positive link between social capital and value creation; both exploration and exploitation capabilities have positive mediation effects on the relationship between social capital and value creation; the environmental competition moderates the positive relationship between social capital and exploration capabilities.

5. Conclusion

Our study contributes to the literature in two ways. Firstly, our study offers new insights to social capital literature by showing that exploration and exploitation capabilities can mediate values created by social capital after controlling the factors of human resources asset and organizational asset. These findings suggest that social capital values can be enriched by capabilities and offer possible explanation for why some enterprises with better capabilities get a better return in their social capital investments. Secondly, our study also enriches the understanding of the environmental competition impact on the social capital effect of exploration and exploitation capabilities enhancements. Our investigation of the moderating role of environmental competition shows that the positive relationship between social capital and exploration capabilities may become insignificant under fierce competition situation. Riding on the benefits of social capital and efforts of exploration and exploitation, enterprises in China can enjoy better value creation. Also, this model answers the impact of environmental competition intensity on the exploration or exploitation capabilities which may influence the ultimate value creation.

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7. References

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